

109TH CONGRESS  
1ST SESSION

# H. R. 1650

To amend the Internal Revenue Code of 1986 to allow tax credits to holders of stem cell research bonds.

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## IN THE HOUSE OF REPRESENTATIVES

APRIL 14, 2005

Mrs. JOHNSON of Connecticut (for herself, Mr. CASTLE, Mr. BOSWELL, Mrs. CHRISTENSEN, Ms. LEE, Mr. RAMSTAD, Ms. LORETTA SANCHEZ of California, Mr. SHAYS, and Mr. SIMMONS) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to allow tax credits to holders of stem cell research bonds.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Stem Cell Research  
5       Investment Act of 2005”.

6       **SEC. 2. INCENTIVES FOR STEM CELL RESEARCH.**

7       (a) IN GENERAL.—Chapter 1 of the Internal Rev-  
8       enue Code of 1986 is amended by adding at the end the  
9       following new subchapter:

1    **“Subchapter Z—Stem Cell Research Bonds**

“Sec. 1400N. Credit to holders of qualified stem cell research bonds.

2    **“SEC. 1400N. CREDIT TO HOLDERS OF QUALIFIED STEM**  
 3                   **CELL RESEARCH BONDS.**

4           “(a) ALLOWANCE OF CREDIT.—In the case of a tax-  
 5 payer who holds a qualified stem cell research bond on  
 6 a credit allowance date of such bond which occurs during  
 7 the taxable year, there shall be allowed as a credit against  
 8 the tax imposed by this chapter for such taxable year an  
 9 amount equal to the sum of the credits determined under  
 10 subsection (b) with respect to credit allowance dates dur-  
 11 ing such year on which the taxpayer holds such bond.

12          “(b) AMOUNT OF CREDIT.—

13               “(1) IN GENERAL.—The amount of the credit  
 14 determined under this subsection with respect to any  
 15 credit allowance date for a qualified stem cell re-  
 16 search bond is 25 percent of the annual credit deter-  
 17 mined with respect to such bond.

18               “(2) ANNUAL CREDIT.—The annual credit de-  
 19 termined with respect to any qualified stem cell re-  
 20 search bond is the product of—

21                   “(A) the applicable credit rate, multiplied  
 22                   by

23                   “(B) the outstanding face amount of the  
 24                   bond.

1           “(3) APPLICABLE CREDIT RATE.—For purposes  
2           of paragraph (1), the applicable credit rate with re-  
3           spect to an issue is the rate equal to an average  
4           market yield (as of the day before the date of  
5           issuance of the issue) on outstanding long-term cor-  
6           porate debt obligations (determined under regula-  
7           tions prescribed by the Secretary).

8           “(4) SPECIAL RULE FOR ISSUANCE AND RE-  
9           DEMPTION.—In the case of a bond which is issued  
10          during the 3-month period ending on a credit allow-  
11          ance date, the amount of the credit determined  
12          under this subsection with respect to such credit al-  
13          lowance date shall be a ratable portion of the credit  
14          otherwise determined based on the portion of the 3-  
15          month period during which the bond is outstanding.  
16          A similar rule shall apply when the bond is re-  
17          deemed.

18          “(c) LIMITATION BASED ON AMOUNT OF TAX.—

19                 “(1) IN GENERAL.—The credit allowed under  
20                 subsection (a) for any taxable year shall not exceed  
21                 the excess of—

22                         “(A) the sum of the regular tax liability  
23                         (as defined in section 26(b)) plus the tax im-  
24                         posed by section 55, over

1           “(B) the sum of the credits allowed under  
2           part IV of subchapter A (other than subpart C  
3           thereof, relating to refundable credits).

4           “(2) CARRYOVER OF UNUSED CREDIT.—If the  
5           credit allowable under subsection (a) exceeds the  
6           limitation imposed by paragraph (1) for such taxable  
7           year, such excess shall be carried to the succeeding  
8           taxable year and added to the credit allowable under  
9           subsection (a) for such taxable year.

10          “(d) QUALIFIED STEM CELL RESEARCH BOND;  
11 CREDIT ALLOWANCE DATE.—For purposes of this sec-  
12 tion—

13           “(1) QUALIFIED STEM CELL RESEARCH  
14 BOND.—The term ‘qualified stem cell research bond’  
15 means any bond issued as part of an issue if—

16           “(A) 95 percent or more of the proceeds of  
17           such issue are to be used for interdisciplinary  
18           scientific and medical research relating to stem  
19           cells, therapy development relating to stem  
20           cells, and development of pharmacologies and  
21           treatments through clinical trials relating to  
22           stem cells,

23           “(B) the bond is issued by a State or local  
24           government,

1           “(C) the issuer designates such bond for  
2 purposes of this section, and

3           “(D) the term of each bond which is part  
4 of such issue does not exceed 30 years.

5           “(2) STEM CELL.—

6           “(A) IN GENERAL.—The term ‘stem cell’  
7 means a cell with the ability to divide for indefi-  
8 nite periods in culture and give rise to special-  
9 ized cells.

10          “(B) LIMITATION.—Human embryonic  
11 stem cells shall be eligible for use in any re-  
12 search supported by a bond issued under this  
13 section if the cells meet each of the following:

14           “(i) The stem cells were derived from  
15 human embryos that were donated from in  
16 vitro fertilization clinics, were created sole-  
17 ly for the purposes of fertility treatment,  
18 and were in excess of the clinical need of  
19 the individuals seeking such treatment.

20           “(ii) Prior to the consideration of em-  
21 bryo donation and through consultation  
22 with the individuals seeking fertility treat-  
23 ment, it was determined that the embryos  
24 would never be implanted in a woman and  
25 would otherwise be discarded.

1                   “(iii) The individuals seeking fertility  
2                   treatment donated the embryos with writ-  
3                   ten informed consent that the embryos  
4                   would be used for research purposes.

5                   “(iv) Neither the individuals for whom  
6                   the embryo was created nor any other per-  
7                   son or entity which participated in the fer-  
8                   tility treatment through which the embryo  
9                   was created received, directly or indirectly,  
10                  any monetary incentive or other compensa-  
11                  tion with respect to the donation of the  
12                  embryo.

13                  “(3) REPORT ON RESEARCHER ACTIVITIES.—A  
14                  bond shall not be treated as a qualified stem cell re-  
15                  search bond unless the issue of which such bond is  
16                  a part carries a requirement under which any person  
17                  who receives proceeds from such issue for a purpose  
18                  described in paragraph (1)(A) is obligated to submit  
19                  to the issuer an annual report—

20                  “(A) describing the activities carried out  
21                  (in whole or in part) with such proceeds during  
22                  the preceding calendar year, and

23                  “(B) including a description of whether  
24                  and to what extent research for a purpose de-  
25                  scribed in paragraph (1)(A) has been conducted

1 in accordance with the requirements imposed by  
2 the issuer of such bond.

3 “(4) CREDIT ALLOWANCE DATE.—The term  
4 ‘credit allowance date’ means—

5 “(A) March 15,

6 “(B) June 15,

7 “(C) September 15, and

8 “(D) December 15.

9 Such term includes the last day on which the bond  
10 is outstanding.

11 “(5) BOND.—The term ‘bond’ includes any ob-  
12 ligation.

13 “(6) STATE.—The term ‘State’ includes the  
14 District of Columbia and any possession of the  
15 United States.

16 “(e) LIMITATION ON AMOUNT OF BONDS DES-  
17 IGNATED.—

18 “(1) IN GENERAL.—The maximum aggregate  
19 face amount of bonds issued during any calendar  
20 year which may be designated under subsection (a)  
21 by any issuer shall not exceed the limitation amount  
22 allocated under paragraph (2) for such calendar year  
23 to such issuer.

24 “(2) LIMITATION ON AMOUNT ALLOCATED TO  
25 AN ISSUER.—Not more than 20 percent of the na-

1 tional qualified stem cell research bond limitation for  
 2 a calendar year may be allocated to an issuer for the  
 3 calendar year. For the purposes of the preceding  
 4 sentence, a local government within a State shall be  
 5 treated as the State.

6 “(3) NATIONAL LIMITATION ON AMOUNT OF  
 7 BONDS DESIGNATED.—There is a national qualified  
 8 stem cell research bond limitation for each calendar  
 9 year. Such limitation is—

10 “(A) \$10,000,000,000 for each of the cal-  
 11 endar years 2006, 2007, and 2008, and

12 “(B) except as provided in subsection (f),  
 13 zero after 2008.

14 “(4) CARRYOVER OF UNUSED LIMITATION.—If  
 15 for any calendar year—

16 “(A) the aggregate amount allocated under  
 17 paragraph (2), exceeds

18 “(B) the amount of bonds issued during  
 19 such year which are designated under sub-  
 20 section (a) pursuant to such allocation,

21 the limitation amount under paragraph (3) for the  
 22 following calendar year shall be increased by the  
 23 amount of such excess.

24 “(f) CREDIT INCLUDED IN GROSS INCOME.—Gross  
 25 income includes the amount of the credit allowed to the



1 taxpayer under this section (determined without regard to  
2 subsection (c)) and the amount so included shall be treat-  
3 ed as interest income.

4 “(g) RECAPTURE OF PORTION OF CREDIT WHERE  
5 CESSATION OF COMPLIANCE.—

6 “(1) IN GENERAL.—If any bond which when  
7 issued purported to be a qualified stem cell research  
8 bond ceases to be a qualified stem cell research  
9 bond, the issuer shall pay to the United States (at  
10 the time required by the Secretary) an amount equal  
11 to the sum of—

12 “(A) the aggregate of the credits allowable  
13 under this section with respect to such bond  
14 (determined without regard to subsection (c))  
15 for taxable years ending during the calendar  
16 year in which such cessation occurs and the 2  
17 preceding calendar years, and

18 “(B) interest at the underpayment rate  
19 under section 6621 on the amount determined  
20 under subparagraph (A) for each calendar year  
21 for the period beginning on the first day of  
22 such calendar year.

23 “(2) FAILURE TO PAY.—If the issuer fails to  
24 timely pay the amount required by paragraph (1)  
25 with respect to such bond, the tax imposed by this

1 chapter on each holder of any such bond which is  
2 part of such issue shall be increased (for the taxable  
3 year of the holder in which such cessation occurs) by  
4 the aggregate decrease in the credits allowed under  
5 this section to such holder for taxable years begin-  
6 ning in such 3 calendar years which would have re-  
7 sulted solely from denying any credit under this sec-  
8 tion with respect to such issue for such taxable  
9 years.

10 “(3) SPECIAL RULES.—

11 “(A) TAX BENEFIT RULE.—The tax for  
12 the taxable year shall be increased under para-  
13 graph (2) only with respect to credits allowed  
14 by reason of this section which were used to re-  
15 duce tax liability. In the case of credits not so  
16 used to reduce tax liability, the carryforwards  
17 and carrybacks under section 39 shall be appro-  
18 priately adjusted.

19 “(B) NO CREDITS AGAINST TAX.—Any in-  
20 crease in tax under paragraph (2) shall not be  
21 treated as a tax imposed by this chapter for  
22 purposes of determining—

23 “(i) the amount of any credit allow-  
24 able under this part, or

1 “(ii) the amount of the tax imposed  
2 by section 55.

3 “(h) BONDS HELD BY REGULATED INVESTMENT  
4 COMPANIES.—If any qualified stem cell research bond is  
5 held by a regulated investment company, the credit deter-  
6 mined under subsection (a) shall be allowed to share-  
7 holders of such company under procedures prescribed by  
8 the Secretary.

9 “(i) CREDITS MAY BE STRIPPED.—Under regula-  
10 tions prescribed by the Secretary—

11 “(1) IN GENERAL.—There may be a separation  
12 (including at issuance) of the ownership of a quali-  
13 fied stem cell research bond and the entitlement to  
14 the credit under this section with respect to such  
15 bond. In case of any such separation, the credit  
16 under this section shall be allowed to the person who  
17 on the credit allowance date holds the instrument ev-  
18 idencing the entitlement to the credit and not to the  
19 holder of the bond.

20 “(2) CERTAIN RULES TO APPLY.—In the case  
21 of a separation described in paragraph (1), the rules  
22 of section 1286 shall apply to the qualified stem cell  
23 research bond as if it were a stripped bond and to  
24 the credit under this section as if it were a stripped  
25 coupon.

1       “(j) TREATMENT FOR ESTIMATED TAX PURPOSES.—  
2       Solely for purposes of sections 6654 and 6655, the credit  
3       allowed by this section to a taxpayer by reason of holding  
4       a qualified stem cell research bond on a credit allowance  
5       date shall be treated as if it were a payment of estimated  
6       tax made by the taxpayer on such date.

7       “(k) CREDIT MAY BE TRANSFERRED.—Nothing in  
8       any law or rule of law shall be construed to limit the trans-  
9       ferability of the credit allowed by this section through sale  
10      and repurchase agreements.

11      “(l) REPORTING.—

12           “(1) INITIAL REPORT.—Issuers of qualified  
13      stem cell research bonds shall submit reports similar  
14      to the reports required under section 149(e).

15           “(2) ANNUAL REPORTS.—In addition to the re-  
16      port required by paragraph (1), issuers of qualified  
17      stem cell research bonds shall submit a report not  
18      later than March 31 of each year to the Secretary.  
19      Each such report shall include a description of—

20           “(A) the activities carried out (in whole or  
21      in part) with the proceeds of such bonds during  
22      the preceding calendar year, and

23           “(B) whether and to what extent research  
24      for a purpose described in subsection (d)(1)(A)

1           has been conducted in accordance with the re-  
2           quirements imposed by the issuer of such bond.

3           “(m) TERMINATION.—This section shall not apply to  
4 any bond issued after September 30, 2008.”.

5           (b) REPORTING.—Subsection (d) of section 6049 of  
6 such Code (relating to returns regarding payments of in-  
7 terest) is amended by adding at the end the following new  
8 paragraph:

9                   “(8) REPORTING OF CREDIT ON QUALIFIED  
10           STEM CELL RESEARCH BONDS.—

11                           “(A) IN GENERAL.—For purposes of sub-  
12                   section (a), the term ‘interest’ includes amounts  
13                   includible in gross income under section  
14                   1400N(f) and such amounts shall be treated as  
15                   paid on the credit allowance date (as defined in  
16                   section 1400N(d)(3)).

17                           “(B) REPORTING TO CORPORATIONS,  
18                   ETC.—Except as otherwise provided in regula-  
19                   tions, in the case of any interest described in  
20                   subparagraph (A) of this paragraph, subsection  
21                   (b)(4) of this section shall be applied without  
22                   regard to subparagraphs (A), (H), (I), (J), (K),  
23                   and (L)(i).

24                           “(C) REGULATORY AUTHORITY.—The Sec-  
25                   retary may prescribe such regulations as are

1           necessary or appropriate to carry out the pur-  
2           poses of this paragraph, including regulations  
3           which require more frequent or more detailed  
4           reporting.”.

5           (c) CONFORMING AMENDMENT.—The table of sub-  
6 chapters for chapter 1 of such Code is amended by adding  
7 at the end the following new item:

“SUBCHAPTER Z. STEM CELL RESEARCH BONDS”.

8           (d) EFFECTIVE DATE.—The amendments made by  
9 this section shall apply to obligations issued after Decem-  
10 ber 31, 2005.

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